

Is there Life After Glencore?

☒ “Everyone loves a winner”... or is it that “Everyone loves an underdog”. Ivan Glasenberg has managed to be unloved either as a winner or as a loser. Frankly, the long-time chief of Glencore has won no friends over the years. Straddling two industries, commodities and mining where big egos are a common denominator, Glasenberg has managed to rub almost everyone up the wrong way. Now with his unsinkable Glencore having ploughed into an iceberg of its own devising, the question is “would you throw this man a life ring if he was drowning?”.

It sounds rather harsh but the takeover of Xstrata was the last straw. Previously he had been just a hard-nosed trader out to get the best deal and build his company into the undisputable 800-lb gorilla in the space. His symbiotic relationship with Xstrata has been somewhat arm’s length so the marketplace had cognitive dissonance in that it “liked” Xstrata while it feared and respected Glencore. Putting the two together in a most unhappy merger made the corporate suite of Xstrata resemble the aftermath of the *Shower Scene* from *Psycho*. Veteran managers, known and famed across the mining industry, were bundled out the door with unseemly haste.

Then the started rattling its cage about going after Rio Tinto as if such a merger was its birthright. Fortunately higher powers stomped on that deal. If the RTZ takeover had occurred, with the massive amount of debt that would have been needed to consummate it, then the bankruptcy of Glencore would already have happened. It was a very dumb deal in an industry in which there is much competition for that title. Beyond financial fecklessness, everybody in the industry knew that such a deal would also have involved massive bloodletting. The whole industry dodged a bullet there.

Then there was the sad but almost unnoticed case of Donner Metals, the junior partner to Xstrata in the Bracemac McLeod

Zinc mine. Donner was treated by Glencore like a horde of Cossacks would treat a blushing virgin. The downfall of Glencore may be little consolation for shareholders there but they are certainly entitled to a liberal dose of *Schadenfreude*.

Fins in the Water

With Glencore being daily battered by the rough waves of global financial markets its market share in many metals is up for grabs. Certainly it has contracts with many miners that require them to keep selling to it, but there is also the discretionary business that is done by many miners, the type of business that gave the trader its 68% share in the global zinc market for instance. After the bad experience of REFCO and father back Metallgesellschaft, one can bet that miners that are not tied down by contracts to sell specified amounts will already be ringing the phones off the hook at the other traders looking for bids so they can diversify (let's face it – lower) their exposure to Glencore.

Lead & Zinc traders, for instance, at Trafigura and Traxys must have had a bumper week. They would be the most obvious winners from a Glencore stumble. Noble and Wogen would benefit in other metals and then there is the massive Vitol, which jungle drums tell us has long harboured ambitions to match its heft in oil & gas with similar weightiness in metals trading. It should not be forgotten that Glencore itself was the Phoenix that arose from the ashes of the Marc Rich empire. As we have noted before the principal assets of trading houses pick themselves up at 5pm every afternoon and head out of the building. If they did not come back one day (due to the firm hitting the rocks) and instead set up operations across the road they would not have all their former business to play with, but certainly they would have a lot of it. What's more they would have whatever proceeds they had cashed out at the IPO, and in the after-market as seed capital for Son of Glencore. This means that the demise of Glencore, or any other

trader for that matter, would make only limited rippling of the metals markets and mining sphere millponds.

There are enough other traders out there for the business of the stricken giant to be divided up and redirected with days let alone weeks.



White Knights in Short Supply

If fate does claim Glencore, it will not be end of the world. The Swiss government certainly won't be stepping in to save it. Tax havens have their advantages up to a point. We cannot see any other potential takers. Traders can be poached easily from a stricken trader and major miners would not want it because the overlap with their existing mines would precipitate hefty bargain basement disposals to satisfy competition authorities meanwhile the trading part of the business would be walking out the door.

Revenge is a Dish Best Eaten Cold

As for the mining assets, Mick Davis must be salivating at the thought. Maybe this outcome was the method in his madness in not splurging the cash pile he has at X2. If he stands a chance at recuperating big chunks of his old empire then funders would probably be lining up to put more cash in his warchest.

The question is whether he would want all of his former vehicle's assets. At the time of the takeover of Xstrata it was a major producer of coal (and the world's largest exporter of thermal coal), copper, nickel, primary vanadium and zinc and the world's largest producer of ferrochrome. It had operations in 19 countries across Africa, Asia, Australasia, Europe, North America and South America. A few assets were sold off (most notably the Las Bambas project in Peru that went to MMG). Frankly if offered the entity we would pass on

the coal which is not passing a happy moment and does not have the turnaround prospects of the other metals. As mining assets are a buyer's market, X2 could afford to play the choosy buyer and pick and choose which of these it can afford with its current (or prospective) war chest.

Quite a number of the assets are worth substantially less now that prices have declined from the levels they were when Glencore grabbed Xstrata and beyond that several of the prime Zinc assets are reaching the end of their mine-lives. There is scope to push a hard bargain as it is far from being a seller's market at the moment. Competing offers would be few and far between.

Conclusion

What goes around comes around. In many ways, pure trading houses are a *will-of-the-wisp* with little in the way of profit generating assets. Some have backfilled with upstream assets (i.e. mines) in recent years but done so at the cost of enormous debt burdens which are now mismatched with the beaten down value of mineral properties. The trading business is largely goodwill so the creditors are looking at a whole lot of nothing as security for their loans. Some have said that the demise of Glencore is "bad news" for miners but we are not sure that that is true. It's bad news for those that extended credit and equity holders of the stock, but that does not necessarily have any overlap with the mining community.

Great names come and great names go. Some generate tears when they depart. Some merely a shrug. Remember Donner Metals... Karma is a bitch..